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From Mellmott to Madoff: History in the (Re) Making

"History" has never enjoyed a peaceful existence. There has been a constant struggle over the primacy of ideas. The tacit agenda of mainstream history is often to elevate the version of the victors and to defend the status quo. A few years ago, doctoral students attending an American Accounting Association (AAA) colloquium were informed by an eminent, tenured professor that nothing in *The Accounting Review* (*TAR*) older than five years was worth reading.[1]

Editors of *TAR* and the *Journal of Accounting Research* (*JAR*) did not always express such distain for past scholarship. *JAR* was a joint creation of the University of Chicago and the London School of Economics (LSE). The latter was dominated by historians such as Will Baxter and Harold Edey. Their graduate disciples came to dominate chair appointments in the U.K. and beyond. Most notable were Peter Bird, Sir Brian Carsberg, David Solomons, Robert Parker, Geoffrey Harcourt, and Tony Lowe.

While archivalism/empiricism typified the research focus of the LSE's "Godfather-Originals" (Edey and Baxter), their first-generation students diversified into quite eclectic directions (managerial economics [Sir Brian Carsberg]; managerial economics, philosophy, general systems theory, and cybernetics [Tony Lowe]; and, *inter alia*, income theory and economics [Robert Parker]).

The transition from history to market studies proceeded at different speeds in JAR and TAR. TAR, a "public society" journal, was slower to embrace market studies and abandon history.

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[1] We challenge any reader to recall the titles and authors of the first article of the first 2005 issue of *TAR*.

However, 1965 marked a turning point in bringing TAR to heel. Pressure from the then Big Eight accounting firms and their clients forced the editor of TAR to tell Abraham Briloff "never to submit his work to TAR again" [Tinker and Puxty, 1995]. Briloff was the bête noire of the Big Eight and their clients.[2]

The capitulation of TAR to market forces was accomplished directly and indirectly. Directly, the AAA became increasingly dependent on non-membership fees as a source of revenue [Tinker, 2001]. Indirectly, the Big Eight and their clients colonized the professoriate with funding of chairs and research. This gave a "chosen few" an elevated status and access to research finance and, therefore, publications. This "edge" allowed market-friendly professors access to positions of influence via publications, editorial-board memberships, and executive-committee appointments at the AAA [Williams, 1980, 1985].

The rush to "market" was a lot easier for a private journal like JAR under the tutelage of its editor, Nicholas Dopuch. Dopuch was based at the (private) University of Chicago that openly courts market sources of funding from the Big Eight, their clients, and anyone else willing to pay. Private sources are the lifeblood of private universities.

Dopuch had no qualms about dumping JAR's connection with the LSE's quaint history and adopting a new research order of pseudo-scientific rigor of regression-based market studies. As shown later, this self-declared brand of positivism and empiricism in accounting is philosophically naïve [Tinker *et al.*, 1982; Christenson, 1983].

Importantly, for historians who might lament the demise of accounting history, as Marx pointed some 160 years earlier, the struggle for ideas was no longer an intellectual contest about the merits of ideas, but had been replaced by "prizefighters" [Marx, 1977, afterword]. For Marx, from around 1850 onward, the market was beginning to assimilate "political economy."

Changes in the accounting realm were accompanied by parallel movements elsewhere in the university. In the U.S, the Cyert Report elevated the business school MBA as the premier qualification for populating the upper echelons of America's corporate management.[3] In the U.K, there were no indigenous busi-

[2] Briloff promptly switched to *Barron's* to continue his critique of the Big Eight and their corporate clients. With a much larger circulation than any academic journal, *TAR*'s rejection was a blessing in disguise.

[3] The insertion of "business" into the U.S. university campus was not accepted without reservation. To this day, Harvard University only allows the Harvard Business School to award a DBA, not a Ph.D.

ness schools of consequence; economics departments typically controlled any business and accounting curricula. Accordingly, the U.K. government provided seed-money of £30 million to establish the Manchester and London Business Schools. These were the bellwethers for others to follow. One consequence of this growing commodification of U.K. education was the eclipse of economic history, epitomized by the decline of history at the LSE which has been replaced there as a training ground for the sons and daughters of the rich and famous around the globe.[4]

History, philosophy, and "the classics" no longer appear on the usual business doctoral curriculum. Aristotle, Plato, and Socrates are dead and buried. These, and their fellow texts, have been displaced by "modern math" that has erected its own hermeneutically sealed, home-spun standards of "relevance," "truth," "validity," etc. Mainstream market studies routinely report R-squares, often of minuscule explanatory size, as "confirmation" that their hypotheses have not been rejected and, therefore by implication, remain "true."

These tests are nicely isolated from the established standards of epistemic appraisal [Whitley, 1972, 1973, 1986]. Even Karl Popper [1957], a conservative philosopher of note, demonstrates that any brand of empiricism/positivism that seeks to "confirm" an hypothesis is not tenable from a philosophical perspective. In his *Logic of Scientific Discovery*, Popper argues that the empirical finding of one black swan (analogous for us to a failed bank with a particular leverage ratio) does not allow a researcher to conclude that all swans are black (or that all banks with a particular leverage ratio are doomed). Inference to a truth statement is a fallacious philosophy.[5]

Market-studies confirmationalists perpetrate tests that are akin to trying to affirm/confirm that finding one purple swan reinforces the dogma that all swans might be purple. This has the convenient ideological purpose of affirming the status quo, including the tacit thesis of market studies. The monotonous reuse of regression studies with familiar market variables tacitly affirms that the market is equilibrating and therefore working well in providing a proper allocation of society's resources and

[4] Seventy % of LSE students are now from wealthy overseas families. The LSE is now the intellectual West Point (Sandhurst) of the U.K., training the next generation of an indigenous elite that is friendly to the West.

[5] For Popper, researchers should frame their hypothesis for refutation and strive to refute the thesis with evidence. So, for instance, a hypothesis framed that there are no purple swans that is refuted by the discovery of a purple swan allows the researcher to conclude definitively that the hypothesis is refuted.

functions best without regulatory interference.

Confirmationism serves mainstream accountants by protecting the reigning dogma (market studies). As long as the contention that markets are "okay," there is no need to consider "inferior" literatures (history) that can be dismissed as "not *de rigueur*." Dissident research is censored because it might supplant the mainstream sovereign thesis and provide the tools for unearthing "disturbing truths" that would trouble the status quo.

The so-called top three journals, JAR, JAE, and TAR, all play the same jingle, expressed in their own allegorical form and delivering the same message with resounding consistency that markets are "good" because they are efficient and are the best adjudicators for promoting the social good (with the corollary that state interference and regulation are "bad"). What is minimized and excluded by this sovereign position [Ryan, 1982] are contrary viewpoints, those expressed in public interest, taxation, interest, gender issues, history, management accounting, etc. [Whitley, 1972, 1973, 1986; Tinker, 2001].

In the mid-19th century, Marx produced his opus Capital [Vol. 1, 1977]. Adverse to the popular ideology, Capital is not a eulogy to Communism, living socialism, or any other version of "Mickey-Marxism" [Tinker, 1999]. These were self-serving appropriations by dictators and mass murderers who, according to modern historians, never actually read Capital.

Fortunately, there is a change of heart regarding the literatures (including history) that are relevant to deciphering the present. Desperate times call for desperate measures, and in the intellectual realm, this means accepting the unacceptable. And if the *New York Times* issues an edit, it is worthy of attention:

> The financial meltdown has sent the literary-minded scurrying back to the classics for insight and succor. The dastardly exploits of the Ponzi artist Bernie Madoff call to mind *The Last Tycoon* (Fitzgerald and Wilson, 1941) or *The Way We Live Now* (Anthony Trollope, 1941). At a time when hard-core free-marketeers like Richard Posner (2009) are questioning the efficacy of capitalism, the works of Karl Marx are being fished out of the dustbin of history. Most classic critiques of capitalism are much-mentioned but little read, the sort of books people routinely cite without really knowing what's in them [Daniel Gross, 2009].

Anthony Trollope wrote *The Way We Live Now* in the 1850s. His anti-hero, Augustus Melmotte, pre-dated Ponzi by 80 years and Madoff by over 150 years. If scholars and regulators had read Trollope, Madoff might have been on their radar screens and many other con-artists who preceded him.

Melmotte's scam was far more outlandish than Madoff's operation; indeed, by comparison, Madoff's operation appears quite amateurish. Madoff preyed on Jewish philanthropic organizations, the Jewish communities in New York, and the snowbirds who flock to Palm Beach to escape the northeast winter.

Melmotte entered London society with a dubious pedigree. He was a foreigner with a murky past who left Paris under the shadow of a financial scandal. On his arrival in London, Melmotte underwent a complete makeover, burying all traces of his past dossier and weaving his magic by playing on the greed of the English landed gentry. Many of the latter were under financial distress because the primary source of their wealth, agriculture, was in the doldrums because of the influx of cheap corn imports as a result of the Corn Laws.[6]

The landed gentry were desperate for new opportunities to rectify their deteriorating financial condition. Melmotte appeared on the London scene like a knight in shining armor. Like Madoff, he promised gullible investors spectacular returns. Melmotte used the promise of undreamt riches from a railroad venture connecting the U.S. to Mexico. Of course, unbeknownst to the investors, not a line of rail track was ever laid. Instead, investor monies were used to create an aura of matchless success.

Melmotte took care to assuage any doubts about the integrity of his activities by displaying all the trappings of success, providing comfort and reassurance to all those who had unwittingly bankrolled his venture. Madoff used his wealth to secure gold-brick credentials. He built a new mansion in the center of London, unparalleled in splendor and extravagance. He spared no expense on the furnishing. He invited London's upper-crust to a banquet celebrating the opening of his new mansion, starring the Emperor of China. He financed a coming-out ball for his daughter to launch her into English society and to introduce her to eligible marital suitors. Finally, Melmotte used "other peoples' money" to bankroll a successful run for a seat in Parliament. Melmotte was "gold" and Londoners flocked to share in his success.

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[6] The Corn Laws were a legislative coup for the emergent industrial classes who were seeking cheaper costs, including labor costs that included the cost of food used to reproduce their labor force. The wealth of the landed classes was seriously impaired as a result of the Corn Laws.

Like Madoff, Melmotte's pack of cards collapsed with problems of liquidity. He was required to honor a promissory note that he had issued in exchange for title to the mansion that he had renovated and occupied. Melmotte had funds to cover the obligation, but he had transferred his entire fortune out of the reach of his creditors into a safe-harbor of his daughter. The latter had been abused by Melmotte for years and avenged herself by denying her father access to the funds in his time of need. In 18th century parlance, Melmotte did not have "the readies" and was not able to meet the call on the note. He was destroyed by a liquidity crisis and shortly afterwards committed suicide with poison, a more spectacular exit than the ignominious departure by Madoff.

Like Trollope (Melmotte), Marx is also recommended reading by Daniel Gross. Gross [2009] cautions that texts like Capital (and we might add, Keynes's General Theory [1936]) are "…much-mentioned but little read…routinely cited without really knowing what's in them."

At this point, Trollope and Marx part company. Trollope was the victim of "historical forgetfulness"; Marx, however, was the victim of "historical revisionism." Marx, in western literature, was never even "much-mentioned" because during the Cold War, Marx and Marxism were taboo. The mere mention of Marx was to risk the wrath of McCarthyism.

In the U.S.S.R., Marx was "much mentioned and routinely cited" by Stalin, Mao, Poll-Pot, and other mass murders. They shared with western historians the bad habit of never actually having read the original. Indeed, in the U.S.S.R., leading Marxist economists and high-school students only read received texts, usually simplistic renditions commissioned by Joe Stalin. It was Stalin's contention that since the U.S.S.R. had transcended capitalism and had inaugurated "living socialism," Marxism was no longer relevant. Marx's primary text, Capital, the analysis of capitalism was no longer pertinent to the U.S.S.R.

Like Trollope, Marx's Capital speaks eloquently about our present predicament. Contrary to popular belief, Marx's Capital, Volume 1, is neither a diatribe against capitalism nor a celebration of Communism. As Ernest Mandel [1975] notes in his introduction, "…the fundamental aim was to lay bare the laws of motion which govern the origins, the rise, the development, the decline and the disappearance of…the capitalism mode of production….It is…an analysis of the Anatomy of Capitalism" [Marx, 1977, p. 12].

How does Capital address today's world-wide malaise? Marx begins with capitalism's elemental or cellular form, the commodity. The "commodity" for Marx is not just the commonsense notion of a thing that is bought and sold; its most important variant is the labor commodity. Marx's commodity possesses inherent contradictions and, therefore, inherent instabilities. This is not just the vulgar or simplistic notion that labor is "exploited" (which, of course, is correct), but much more importantly, the market quest for surplus value (profit) frequently stands in opposition to the socially valuable aspect of a commodity (its use value). This contradictory feature is the source of social eruptions.

Instances of the opposition are legion; e.g., U.S. healthcare for profit; banking for profit, and education for sale. Another example is Enron's cutting off electricity supplies in California, nicely timed blackouts in the height of summer, to blackmail California into accepting punishing price increases. Enron also pulled the same stunt on 29 third-world (vulnerable and easily corruptible) countries. Enron hijacked the water, electricity, and gas supplies of these countries, using contracts established, sanctioned, and enforced with the blessing of the IMF, which then aided and abetted the compelling of punitive price increases.[7] The West Virginia mining disaster "pit" costs against safety. Exxon Valdez and BP's Deepwater Horizon oil spill exposed the tension between fuel needs and safety/nature/livelihoods. Finally, there is the case of the pollution of Paris' public-water supply that stampeded citizens into purchasing (privately owned) bottled water.

While American and some European workers cower at threats of redundancy and off-shoring their jobs, there is underreported labor unrest in China, Greece, Spain, and other regions of the globe. The inherent instabilities of the labor commodity are on the rise in different parts of the world.[8] Like Trollope, the lessons from Marx's analysis are as pertinent today as they were

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[7] There were street riots protesting the increases in some countries. Enron police assisted in putting down the riots and a number of protestors died.

[8] The U.S. Administration was slow to grasp the significance of the financial instabilities in the euro-zone to protect U.S. interests. Eighty % of IMF capital is financed by the U.S., and the IMF was a major partner in imposing an austerity package in the Greek rescue. Spain, Portugal, and Ireland are waiting in line. Street rioters in Greece openly branded the U.S. for the austerity deal. American banks came a close second as the institutional villains who had precipitated the crisis. To add a further systematic risk complication to the mix, the Greek banks owed nearly $100 billion to German and French banks (The German-led rescue was not entirely altruistic.).

in 1860.

Marx's opus is a careful analysis of Capital(ism). Developing from our earlier work [Neimark and Tinker, 1987], we show that Marx [1977, 1992] and his modern-day "students," notably Theodore Adorno, cited extensively in the original 1977 text, has, like Anthony Trollope, a great deal to say about the present crises [Ryan, 1982; Dews, 1986].

First and foremost, both Marx and Adorno argue that capitalism's crises cannot be resolved or cured; they can only be postponed, deferred, or transformed. This is because the underlying contradictions of capitalism remain undisturbed, so that the deep-rooted antinomies remain ever-present [Gamble and Walton, 1976].

Before proceeding, it is important how much we can take from Marx directly and how much we must draw on those who use his mode of analysis. Marx wrote at a time when European nations were still predominantly agrarian economies with a growing migration of labor from country to town. The industrial bourgeoisie was still an emergent class. There were no monopolies on today's scale.

Notwithstanding the temporal limitations of Marx's Capital, Vol. 1, his legacy is a mode of analysis that endures and allows contemporary Marxists to deploy in examining the present. For instance, his identification of surplus value (profit and taxes) as an expropriation from "productive" activity is expressed today in the generation of massive quantities of surplus values by corporations and the state. Modern-day analysis focuses on where the surpluses (profits and taxes) are deployed [Sweezy and Baron, 1966; Mandel, 1975]. For Mandel, for instance, the military has become the primary recipient of the surplus-value largesse, thereby creating a new "department" in the economy and offering an analysis not too remote from Eisenhower's 1961 warning about the Military-Industrial Complex. More recent studies concentrate on the speculative destabilizing movements engendered by the surpluses extracted by the banking sector, used to pump-and-dump entire stock markets [Cooper, 2008; Balakrishnan, 2009].

We begin by reviewing four contradictory dimensions of the present crisis. Each positions the issues using the classics (Marx and Marxists) and extends the discussion to the present crisis. The four dimensions are the realization crisis, the concentration of capital, the centralization of capital, and the misalignment between identity and non-identity.

THE FOUR DIMENSIONS

The Realization Crisis: "Pump-and-Dump," "bubble-blowing," and "bubble-bursting" are not phrases invented by the "loony-left" but are deployed by contemporary economic commentators when pondering the state of the world-wide economic crisis [Krugman, 2009; Posner, 2009]. Their meditations focus on bubble-blowing by banks and, more recently, bubble-blowing by nation states and their multiple stimulus packages [Tinker, 1992; Sy and Tinker, 2009]. What these analysts fail to ask is why bubble-blowing was such a vital and necessary part of the modern capitalist enterprise?[9] The answer is to be found in the forbidden texts.

Competitive capitalism strives for greater profit, either through socially destructive speculation or by seeking ever greater efficiency by producing "more-with-less" [Allen, 1975; Shaw, 1975; Gamble and Walton, 1976; Braverman, 1998]. "More-with-less" means shedding labor. To avoid adding to the masses of unemployed, capitalism must absorb the discarded laborers, either by finding them gainful employment (economic growth is the prime candidate as long as this can be sustained by "bubble-blowing") or by absorbing surplus labor by using public-sector employment (the U.S. Postal Service, the military, etc.) [Mandel, 1975; Gamble and Walton, 1976; Braverman, 1998].

The problem with the second solution is that it has a finite limit. The U.S. Postal Service is seriously overstaffed, and further expenditures would inflame congressional fears of a new inflationary crisis, instigated by government deficit spending that would earn the wrath of the bond market.[10] Nor is military spending a sustainable option. Drone and other labor-saving technologies reduce the required number of military person-

[9] Alan Greenspan opined as such in his testimony before Congress where he ridiculed members for their hypocritical change of heart. When the bubble was swelling, he was their darling and had their undying support. When the bubble burst, they turned on him like a pack of wolves. Senator Dodd of Connecticut, where all the bank and insurance lobby money resides, performed a spectacular somersault on these issues.

[10] Inflation increases the rates that the bond market must pay on new issues. Bonds issued prior to the inflation period will fall in value to give returns commensurate with the new market rates. Bondholders of those portfolios would suffer major losses. Accordingly, the bond market, four times larger than the market of stocks and shares, hates inflation and lobbies heavily against deficit spending [Cooper, 2008].

nel for absorbing surplus labor. As public disquiet about the death-toll of wars in Iraq and Afghanistan rises, there is growing pressure to replace "men with machines" [Mandel, 1975; Braverman, 1998].

We are also hitting the wall for the first option on the list – inflating demand with credit or bubble-blowing. Maynard Keynes is dead! Anyone who has read The General Theory [Keynes, 1936] would know that Keynes only advised using a stimulus in the nadir of a depression (never preemptively) and that a Keynesian stimulus only works in a semi-closed economy. Today's economies have extensive import-export relations, thereby mitigating the effects of a state-induced stimulus. This is the reason for the tepid impact of the current stimulus packages [Balakrishnan, 2009].

The first option, credit expansion by bubble-blowing by corporations and banks, is also unavailable as these avenues are closed-off. The real-estate bubble has burst, the housing market is languishing, credit cards are over-extended. Dubai's real-estate now sports more cranes than building occupancies, student loans are a slow-burning crisis, the Shanghai real-estate bubble has been pricked by Chinese authorities. In the U.S. and the U.K., mortgage delinquencies threaten to escalate as citizens without jobs face come-due, first-time balloon payments.

One prognosis as to the future of capitalism may be found in the writings of Adam Smith and his contemporaries that, in the long term, capitalism will gravitate to a steady-state [Balakrishnan, 2009]. What this thesis fails to grasp is the dynamic character of capitalism, its ability in the past to "invent" its way out of crisis by destroying and then replenishing the capital stock of entire countries like Germany and Japan with Marshal Plan and today Iraq. However, today seems to be different with stubbornly high levels of unemployment and the ominous possibility of social unrest in the U.S. already evident on a global scale, led perhaps somewhat ironically by Greece, the cradle of western civilization [Marx, 1977; Braverman, 1998].

The Concentration of Capital: The concentration of capital refers to the growing size of banks and corporations.[11] The savings and

[11] Marx [1977, Vol. 1, p. 887] elaborates on these contradictions as they applied in the 1850's (and as they relate now): "...The concentration of capital within a country and the dissolving effect of this concentration present nothing but positive sides to him [Carey]. But the monopoly of concentrated English capital has a dissolving effect on the smaller national capitals of other countries and is disharmonious….these world-market disharmonies are merely the ultimate ad-

loans crisis of the 1970's was "deferred" by absorbing bad banks into good and larger ones. The same tactic was redeployed for engaging the current crisis. To avoid bank collapses and a systemic meltdown, presaged by Lehman Brothers, banks were permitted to engage in an unprecedented program of mergers and acquisitions. Bear Sterns was absorbed by J.P. Morgan for $29 million; Bank of America "saved" Merrill Lynch for $130 million; Northern Rock, the Abbey, and Bradford and Bingley were absorbed in the U.K.; Wakovia went to Wells Fargo; WAMU to Bank of America; Morgan Stanley to Mitsubishi; and Fortis and Dextor were swallowed in French, Dutch, and Belgian bailouts.

Consolidating banks does not "solve" problems; it merely transformed them into new and larger contradictions, setting the scene for future crises. These new mega-banks are now even bigger, too big to save by their host countries, and their size magnifies ever further the degree of systematic risk. A mega-bank collapse will have unprecedented reverberations through the world financial system because bank interconnectedness is now pervasive.

Figure 1 is a "too big-to-save" table. It assigns the world's largest 25 banks to their host country and expresses their combined leverage of that country's GDP. Ireland and Greece do not appear, not because their situation is not dire, but because their banks and GDP are not large enough in absolute terms to qualify for consideration. This is a limitation of Figure 1, a drawback with these data because, as we have seen in recent months, the euro can be jeopardized by a minnow like Greece and via the IMF, there is a contagion effect that threatens to embroil the U.S.

The voracious, expansive proclivities of capitalism are represented by the expansion of the commodity form (Marx, 1977, pp. 700-883). Congress because of lobbying is now commoditized such that banking regulation is subordinated to the dictates of market forces, personified by "the lobbyist" [Stigler, 1971; Sy and Tinker, 2009]. Even the Volker rule (the firewall for segregating high-risk investment banking from federally insured deposits in commercial banks) has fallen afoul of the powerful banking lobby [Stigler, 1971; Sy and Tinker, 2009]. Thus, if a

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equate expression of the disharmonies which have become fixed as abstract relations with the economic categories or which have a local existence on the smallest scale. No wonder, then, that he [Carey] forgets the positive content of these processes of dissolution..."

FIGURE 1

Too-Big-To-Fail Index: Top 50 Banks' Leverage as a % of Their Country's GDP

COUNTRY	TOP 50 BANKS' LEVERAGE AS A PERCENTAGEOF THEIR HOST COUNTRY'S GDP
Switzerland	595.32
Netherlands	336.86
Belgium	318.84
United Kingdom	206.21
France	198.07
Hong Kong	154.74
Spain	107.77
Japan	102.16
Sweden	82.96
Australia	82.07
Italy	70.32
China	63.26
Germany	49.88
United States	44.19
Canada	28.80

Source: Eurobank	http://www.euromoney.com/Article/1961042/Worlds-largest-banks-2007-Global-bank-rankings-Top-20-global-free-to-access.html
Source: Euromoney	http://www.euromoney.com/Article/1533691/Worlds-largest-banks-Global-bank-rankings-Top-50-by-shareholder-equity-free-to-access.html

future Goldman Sachs suffered catastrophic losses in, say, the Hungarian, Russian, or Romanian stock markets, wiping billions of assets off its balance sheet, it would be U.S. taxpayers who would be obliged to pick up the tab to protect U.S. federally insured depositors.

The travails of the euro began with Greece, but grumblings in Ireland, Spain, and Portugal have spooked international financial markets, including the U.S. The IMF (with its U.S. paymaster) saved Greek banks which owed $50 billion and $80 billion to French and German banks respectively. So the U.S. is indirectly, but very significantly ensnared, in euro travails. And in Germany, the bailout is costing Chancellor Angela Merkel's party dearly in the polls. The German voters do not like the Greeks!

Back in the U.S, the stock market dimly perceived that the fate of the euro is not just a "foreign" problem. The geographical growth of the commodity form in banking means that when the euro sneezes, the U.S. will catch cold.

The Growing Centralization of Capital: Centralization of capital, in popular parlance, refers to the manner in which control of capital is in the hands of fewer and fewer persons. In this regard, centralization and concentration move in lock step.[12] However, Marx's definition of "concentration" is a variance from this popular notion. For Marx [1977, Vol. 1, Chapter XXXIII], "… Centralization of the means of production and socialization of labor at last reach a point where they become incompatible with their capitalist integument. Thus integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."

For Marx, in his time, his notion of centralization focused on the revolutionary potential of increasingly socialized, increasingly socially conscious, factory labor. In his era, the socially disruptive potential of factory labor was amplified through trade-union organization and even political representation (e.g., the Labour Party and the Fabian Society in the U.K.).

Today's trade unions in the U.K. and the U.S. are a shadowy version of their earlier potency. It is easy to rush to the conclusion that Marx's tocsin is no longer relevant today given the

[12] This popular definition serves the convenient ideological purpose of personifying the source of crises in terms of "villains and bad people," to paraphrase President Bush. This ploy diverts attention away from the real source of crises, not "bad people" (the market can simply replace them with more highly qualified bad people) but contradictions in the underlying social system.

emasculated condition of trade unions. However, this misapprehends Marx's analysis that does not depend on the presence and form of the trade-union movement. The basic social antinomy to which Marx refers is not socially and institutionally specific but is capable of assuming different institutional guises at different points in history.

The basic dissonance persists today, but today assumes new forms. The social self-consciousness that evolves from Marx's "centralization of the means of production and socialization of labor" is reflected in the awareness displayed by rioters in Spain, Portugal, and Greece ("IMF, go home"). The insurrectionists at Toronto's G8 meeting ("kill the bankers") and the agitators behind the growing number of strikes for better wages and benefits in China echo similar sentiments.

The Misalignment between Identity and Non-Identity: The "clash" between identity and non-identity is perhaps the most pertinent and theoretically challenging addition offered in this update. Best elucidated by Adorno [1973] and Adorno and Horkhiemer [1979], this "clash" describes the rupture between a social self-consciousness (whether of an individual or a collective) and the historical milieu in which that self-consciousness is embedded.[13] The rupture or clash refers to the manner in which consciousness or self-awareness always lags behind its evolving historical milieu.

Hegel [1967, p. 13, 1975, pp. xiii, 4, 70; see also Lukacs, 1971, p. 59] expresses this relation succinctly: "Only when dusk starts to fall does the Owl of Minerva spread its wings and fly." In the same vein, Marx notes that "…the conventional philosopher always arrives after the feast has ended." ("post-festum").[14]

In contrast with this backward-looking recollection "at dusk" (the "post-festum" analysis of the traditional intellectual), Gramsci's [1971, pp. 404-405] organic intellectual is an active ingredient in social change (a dialectical dynamic of interven-

[13] "An object can be conceived only by a subject but always remains something other than the subject whereas a subject by its very nature is from the outset an object as well. Not even as an idea can we conceive a subject that is not an object, but we can conceive an object that is not a subject. To be an object also is part of the meaning of objectivity to be a subject" [Adorno, 1973, p. 183].

[14] "Hegel's…absolute spirit qua absolute spirit makes history only in appearance….For, as absolute spirit does not appear in the mind of the philosopher in the shape of the creative world-spirit until after the event, it follows that it makes history only in the consciousness, the opinions and the ideas of the philosophers, only in the speculative imagination" [Marx, quoted in Lukacs, 1971, p. 16].

tion and change; not a static, bifurcated Cartesian subject-object split, but a philosophy where object and subject constantly re-constitute each other, albeit imperfectly):

> …the philosophy of praxis is a reform and a development of Hegelianism; it is a philosophy that has been liberated (or is attempting to liberate itself) from any unilateral and fanatical ideological elements; it is consciousness full of contradictions, in which the philosopher himself, understood both individually and as an entire social group, not only grasps the contradictions, but posits himself as an element of the contradiction and elevates this element to a principle of knowledge and therefore action.[15]

The essence of the proposition that "reality" always exceeds consciousness means that reality is always capable of delivering nasty surprises. In the language of dialectics, the "negation-of-negation" is never a complete apprehension of reality but always something less, a synthesis with remainder. This remainder is the unexplained residual (surprise) that provides the accelerant for the next historical movement.

Today's world-wide crisis provides a practical example of dialectics in action. The crisis was precipitated in no small measure by a banking crisis. This "negation" has been "negated" by a faint-hearted regulatory reform, an imperfect expression of Adorno's public consciousness. The negation-of-negation never provides a definitive, final, or absolute closure, but always leaves a remainder or a residual out of which future crises will emerge.

These insights from Marxist dialectics, as formulated by Theodore Adorno and cited extensively in our 1987 text [Neimark and Tinker, 1987], articulates in a systematic matter what is suspected in popular understandings of the banking crisis. Banks successfully resisted the Basle lll efforts to impose higher equity cushions. They defeated restrictions on leverage levels and a collective levy to fund the cost of future bailouts. U.S. banking legislation is also floundering in Congress, with the Volker rule seemingly dead in the water already. The banking lobby successfully resisted these regulations by arguing that, in their present parlous state, any restrictions might fatally destabilize the entire banking system, precipitating a new and even

[15] In such a fashion, Hegel/Gramsci's Organic Owl appears on time for Marx's banquet and enjoins the guests with a "steak" in the future (becoming an historical player in making history).

greater crisis.[16]

The result of these insipid, negation-of-negation reforms is to set the scene for the next financial crisis. Since the previous crisis, systemic risk has increased. Banking entities are now really too big to save, and the firewalls between high-risk investment banking and commercial (high street) banking have been dismantled. These were provisional "solutions" that sewed the seeds for the next crisis.

Yet, banks may not be the epicenter of the next crisis. Nation states, including the euro-zone, are increasingly vulnerable to defaults, not just for their sovereign government debt, but also for default of their private banking sectors, as in the case of the loan exposure of German banks to Greek banks. Already bailout fatigue is setting-in in Germany, and new euro-zone zombies (Spain, Portugal, Ireland) may be thrown to the wolves by German voters.

The outcome for these "the three amigos" may not be pretty. Their government and bank bonds will be downgraded to junk status with increasing interest rates to prohibitive levels. This will impose additional severe burden on their government deficits with likely violations of the debt covenants of IMF and euro loans triggering further penalties. And so the dialectical roundabout begins again, this time with greater speed.

Citizens are not likely to sit quietly by and accept draconian cutbacks in jobs, social services, and benefits. People who lose the ability to pay the rent, buy food for their children, and maintain healthcare payments, etc. are unlikely to remain quiescent in a crisis not of their making. At the time of writing, the renewal of unemployment benefits has stalled in the U.S. Congress, with Republicans demanding that the benefits be funded from cuts elsewhere. Street protests in Canada against the G20 and those in Greece were not amicable. It would be foolish to continue to deny that social instability is not a real possibility.

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[16] This tactic is akin to threatening to commit suicide to avoid taking one's flu shots.

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